REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON ULUNDI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ulundi Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

- 3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- 4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

8. As disclosed in note 42 to the financial statements, material losses to the amount of R20,14 million were incurred as a result of technical and non-technical electricity distribution losses.

Going concern

9. Note 44.3 to the financial statements indicates that the municipality incurred a net loss of R30,38 million during the year ended 30 June 2014 and, as of that date, the municipality's current liabilities exceeded its current assets by R60,74 million. These conditions, along with other matters as set forth in the note 44.3, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages xxx to xxx do not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objective presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

- 14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Objective 1: Basic service delivery on pages x to x.
- 15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
- 16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
- 17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
- 18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Additional matters

19. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

20. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA are as follows:

Budgets

22. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, equity and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Human resource management and compensation

24. An acting municipal manager was appointed for a period of more than three months without the approval by the MEC for local government in contravention of sections 54A(2A) and 56(1)(c) of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Expenditure management

- 25. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
- 26. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Consequence management

27. Irregular expenditure, as well as fruitless and wasteful expenditure were not always recovered from the liable persons, as required by section 32(2) of the MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted from the findings on the compliance with laws and regulations included in this report.

Financial and performance management

29. The financial statements template issued by Treasury was not used in the preparation of the financial statements. Furthermore, there are inadequate skills in the municipality to ensure that financial statements are prepared in accordance with the financial reporting framework in all material respects, and without material adjustments subsequently having to be made to the financial statements initially submitted for audit purposes.

OTHER REPORTS

Investigations

30. The municipality performed is currently performing three investigations which affect the 2013/2014 financial year. Two of the cases related to SCM and Finance Management, and one case related to illegal issuing drivers licences. One of the cases is at a stage where a criminal case is being opened with the South African Police Services and the other two are still awaiting finalisation of disciplinary hearings.

Pietermaritzburg
28 November 2014

